

**Basic concepts for the First Exam 4<sup>th</sup> week**

**Definitions:** Scarcity, Economics, efficiency versus equality, **4 resource categories & payments**, positive versus normative statements, incentive, marginal change, opportunity cost, property rights, productivity, circular flow diagram (Chapters 1 and 2)

**Production Possibilities Frontier:** be able to draw a PPF, explain efficiency versus unattainable and inefficient (unemployment of resources) on the graph. Why is the PPF bowed out? (the law of increasing opportunity costs) Economic Growth, immigration, and Technological change – shifting PPF

**Chapter 3:** Specialization and Trade, absolute versus comparative advantage, opportunity cost and the price of trade, consumption with trade versus self-sufficiency (all can gain from trade) – **Quiz #3**

**Chapter 4:** P-P-P-PINT (Law of Demand and demand shifters), pp. 67-71  
and P-P-PEST (Law of Supply and supply shifters), p. 73-76

3 conditions of a market (Surplus, shortage, or equilibrium, p. 76-78), 3 steps for analyzing changes in equilibrium and Double shifts and ambiguous results, p. 82

NOTE: you will plot a graph as we did on **Quiz #5** (see price floor/ceiling below)

**Chapter 5:** Price elasticity of demand – be able to calculate these using the mid-point formula, know the “varieties”: inelastic, elastic, unit elastic, perfectly elastic and perfectly inelastic definitions (p. 94). Know how total revenue and price elasticity of demand are related (p. 95-96), and the 4 determinants of price elasticity of demand. **Quiz #4**

Price elasticity of supply, income elasticity, and cross price elasticity: know the basic ideas (varieties for supply, normal versus inferior for income and substitutes versus complements for cross price). Don't worry about having to calculate these elasticities except in percentage form: eg. 10% increase in income and decrease in  $Q_d$  is an inferior good.

**Chapter 6:** Binding and non-binding Price Ceilings (pp. 112-116) notice the case studies on gas at the pump and rent control. Price floors, when they are binding and non-binding (remember we did this one as a quiz – hint, perhaps we will do one on the exam like this – a graph, instead with a price ceiling and a shift – it may be binding or non-binding). Minimum wage will be saved for the short paper assignment (pp. 118-120).

(Still not sure if the following will be covered in class yet!)

Taxes – tax incidence, understand the definition, what are the 3 steps, note the tax can be placed on buyers (demand curve shifts) or sellers (supply curve shifts). Elasticity and incidence, especially see page 126. **Quiz #6**